

COMMONWEALTH OF KENTUCKY
DEPARTMENT OF FINANCIAL INSTITUTIONS

IN THE MATTER OF:)

Agent Steven Condit)

CRD # 1661553)

Morgan Stanley Dean Witter)

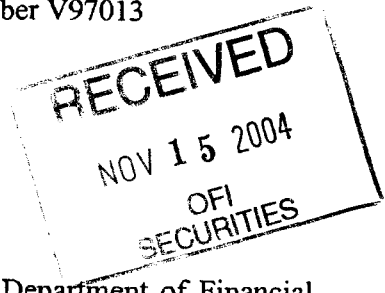
1585 Broadway)

New York, NY 10036)

Respondent)

Agreed Order/Settlement of Registered
Representative Steven Condit

Case Number V97013



I. AUTHORITY AND PARTIES

1. The Commissioner ("Commissioner") of the Kentucky Department of Financial Institutions ("Department") has jurisdiction over this matter pursuant to the Kentucky Revised Statutes §292.310 et seq., as amended ("Act").

2. Recent changes, described as follows, have been made with the election of Governor Ernie Fletcher in late 2003.

3. Pursuant to the authority of Executive Order 2004-031, entered January 6, 2004, by Governor, Ernie Fletcher, the powers and responsibilities of the Department are now vested in the Office of Financial Institutions of the Commonwealth of Kentucky ("Office") and the powers and responsibilities of the Commissioner of the Department are now vested in the Executive Director ("Executive Director") of the Office.

4. During portions of the investigation of this matter, said power and responsibility was or may have been also in the hands of either the Commissioner and/or her Deputy.

5. To the extent such power and responsibility was in the hands of the former Commissioner and/or her Deputy, the Executive Director has affirmed all the acts of the Commissioner and/or her Deputy in this matter as applicable.

6. Consequently, the Executive Director may act in the place of the Commissioner and her Deputy in this matter and this matter is now continued by the Office of Financial Institutions rather than the Department of Financial Institutions.

7. Pursuant to KRS 292.460, the Commissioner and/or her Deputy continuing in her absence, and/or the Executive Director, as applicable, have caused an investigation to be made by the staff of the Department and/or Office to determine whether the Respondent is about to violate or has violated the Act.

8. Respondent, Steven Condit is a registered agent of Morgan Stanley Dean Witter, ("MSDW") a corporation that maintains its principal office in New York. Condit is registered pursuant to KRS 292.330 to transact business in Kentucky as a broker-dealer agent. He has been licensed in the securities industry and in Kentucky since 1987 and has never before been the subject of any regulatory or state disciplinary action.

II. EXECUTIVE DIRECTOR'S PRELIMINARY INVESTIGATION

The Office recently conducted an investigation of the securities activities of Steven Condit, a registered representative or agent of the firm, MSDW. As part of this investigation, the Office gathered information concerning the actions of Condit in relation to his client, ~~Christy Stephens~~. The following facts are significant in this matter:

1. Condit mismanaged several directed trust accounts. Specifically, the Division found that:

a. The directed trust accounts in question in this matter were for the benefit of ~~Christy Stephens~~ and her four minor children. ~~Christy Stephens~~ was a high school graduate who became a widow at the age of 29 when her husband was killed in an industrial accident. She and her children received a settlement from her husband's

employer. The settlement funds were invested in the directed trust accounts. The stated purpose of the trusts is to provide for the long-term support and maintenance of [REDACTED] and her four minor children.

b. [REDACTED] was designated as the investment adviser responsible for directing the investments of the trust accounts, even though she had no prior investment experience. Ostensibly, [REDACTED], as investment adviser for the accounts, would give orders to Condit for execution. However, in fact, it was Condit who determined the investments to be made in the accounts. The term, "investment adviser," has a special meaning in the securities laws, state and federal, and one carrying that label is held out as having a high measure of expertise in investing and investments. [REDACTED] was not qualified as an investment adviser and should not have ever been designated as such.

c. Condit recommended investments in the trust accounts that were not suitable for the purposes of the trusts and made trades in the accounts for the purpose of generating commissions.

d. It bears noting that Condit's trading activities in the trust accounts were unsupervised by MSDW. Neither Condit's supervisor nor anyone else at MSDW reviewed or approved the trades Condit recommended for the accounts. Further, the trading activity in this account was not included in any reports provided to Condit's supervisor.

III. INTERVENING EVENTS

Since the Office began its investigation into Mr. Condit and MSDW, some significant events have occurred including the following.

1. MSDW has entered into settlements agreements with [REDACTED] and the trusts at issue. As part of the settlement agreement, MSDW is making full restitution based on a "well managed account" theory, i.e., what the value of the accounts would have been had they been invested in certain growth oriented mutual funds rather than in the investments at issue. MSDW is also paying fees and costs, and a premium amount in addition.

2. MSDW claims that the circumstance which led to [REDACTED]' complaint was an isolated incident caused by an inadvertent gap in supervisory procedures governing cross-over activity occurring between two independent subsidiaries. This tends to work in favor of Condit as well as MSDW.

3. MSDW stated that it corrected this error as soon as it was detected.

4. According to MSDW, [REDACTED] was the only investor in the State of Kentucky affected by the error; [REDACTED] was the only Kentucky resident who had the type of accounts at issue (directed trust accounts in which trades were executed by a registered representative at the direction of an investment adviser) and no other Kentucky residents were potentially at risk due to the supervision gap. As with MSDW, Condit also benefits from this point.

5. MSDW has stated that it has taken action against Mr. Condit by requiring that he obtain additional compliance training at his own expense and that he contribute toward payment of restitution to [REDACTED]

IV. ANALYSIS

The Office staff takes the position that the rules of suitability were not adhered to in this matter. However, the staff is mindful of the steps that Steven Condit must take in

an effort to correct the problem in this matter and does not lightly dismiss his efforts to remedy the problem. The following points are important.

1. MSDW has entered into settlement agreements with the person reasonably expected to bring a claim against the firm due to its agent's actions. Steven Condit will be required to assist in the payment of the settlement out of his own pocket. Thus, Steven Condit is not getting off "free" in this matter.

2. MSDW has no reason to believe it now faces supervisory problems with respect to any of its registered representatives in Kentucky. It has every reason to believe that this matter was an unfortunate but isolated incident. Steven Condit can benefit from this argument as well as the company.

3. Steven Condit's mitigating circumstances and his willingness to voluntarily try to improve his conduct in the future are entitled to favorable consideration by the Division in its disposition of this matter.

The Office states its position as follows.

4. The Office does not necessarily agree with every aspect of all of the assertions and arguments made by Steven Condit on his behalf but it does not actively dispute them as of the time of entry of this Agreed Order.

5. Notwithstanding disagreements that may exist between the Office and Steven Condit, or may have existed when this matter began, by all appearances circumstances have changed since this matter began and events have occurred which enable the Office and Steven Condit to resolve this matter without any formal proceedings.

III. AGREED ORDER

WHEREAS, the staffs of the Securities Division and the Office of General Counsel of the Office, (collectively the "Staff"), in connection with an investigation of this matter believe that reasonable grounds exist to believe that Mr. Condit was guilty of violations of the Act, but

WHEREAS, it appears that circumstances have changed over time, and

WHEREAS, Steven Condit has offered to take certain steps to allay Office concerns and Steven Condit understands that any failure to comply with this Agreed Order shall be the basis for a recommendation by the Staff to the Executive Director for the issuance of a Notice to begin proceedings for suspension and/or revocation of his registration pursuant to KRS 292.330; and

WHEREAS, Steven Condit desires to resolve the investigation undertaken by the staff with respect to these activities;

NOW, THEREFORE, Steven Condit hereby agrees as follows:

1. Steven Condit shall take all necessary and appropriate steps to comply with the Act and all the Administrative Regulations and Orders of the Office (and its predecessor, the Department) promulgated pursuant thereto in the future.
2. Steven Condit shall consent to a suspension of his registration in Kentucky for *thirty* (30) days commencing with the entry date of this Agreed Order and ending on the thirtieth (30th) day thereafter.
3. Steven Condit consents to a fine in the amount of *Seven Thousand Five Hundred Dollars* (\$7,500.00) which shall be imposed.
4. By signing this Agreed Order, Steven Condit, the undersigned individual, understands and represents that he has read the Agreed Order; that he knows and

fully understands its contents; and that he signs voluntarily and without threat or coercion of any kind to comply with the terms and conditions of this Agreed Order.

Steven Condit

Steven Condit
Signature

11-5-04
Date

ACKNOWLEDGEMENT

County of: Boone

State of Kentucky

On this 5 day of November, 2004, Steven Condit acknowledged this Agreed Order before me.

Londa M. Maher
Notary Public

My Commission Expires: Londa M. Maher, Notary Public
State at Large, Kentucky
My Commission Expires 6/20/2005

Accordingly, **IT IS ORDERED** that

1. Steven Condit shall take all necessary and appropriate steps to comply with the Act and all the Administrative Regulations and Orders of the Office (and its predecessor, the Department) promulgated pursuant thereto in the future.

2. The Kentucky agent registration of Steven Condit pursuant to KRS 292.330 is hereby *suspended* for a period of *thirty* (30) days commencing with

the entry date of this Agreed Order and ending on the thirtieth (30th) day thereafter.


3. Steven Condit shall pay a fine in the amount of *Seven Thousand Five Hundred Dollars* (\$7,500.00) to the treasurer of the Commonwealth of Kentucky no later than the thirtieth (30th) day after the entry date of this Order.

4. Steven Condit shall provide the Office with a written summary report or letter no later than the thirtieth (30th) day after the payment of the fine and the end of his suspension documenting that he has fulfilled those steps of his penalty herein.

5. Unless another deadline is stated, all undertakings herein shall have their deadlines measured to begin running as of the entry date of this Agreed Order.

6. This is a final and appealable order.

ENTERED this the 17 day of November, 2004.



Thomas B. Miller
Executive Director
Office of Financial Institutions
1025 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601